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Cascade

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First New Markets Tax Credit Awardees Seek Investors

By Keith L. Rolland

The first organizations that received allocations under the new markets tax credit (NMTC) program are developing plans for use of the credits and will be recruiting investors this fall for business and real-estate projects. The NMTC program, part of legislation enacted in December 2000, has dual regulations from the Community Development Financial Institutions (CDFI) Fund and the Internal Revenue Service (IRS).

About 200 bankers and government and nonprofit representatives attended a June 13 symposium on NMTCs held at the Park Hyatt at the Bellevue in Philadelphia and organized by the Philadelphia Fed's Community Affairs Department. The symposium featured presentations from the CDFI Fund and the IRS on the current status of the NMTC program and from eight organizations that discussed their plans for use of recent NMTC allocations. Six organizations are national intermediaries with a stated interest in making investments in one or more states in the Third Federal Reserve District, and two are statewide funds located within the District.

David Scheck (far right), executive director of the New Jersey Community Loan Fund (NJCLF), speaks to a group of attendees at the Philadelphia Fed symposium on new markets tax credits.

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Lenders Seek Clarification of NJ's New Predatory-Lending Law

By Keith L. Rolland

SPECIAL REPORT

Home lenders and brokers in New Jersey are seeking clarification of many provisions in the state's strong new anti-predatory lending law, which has had a ripple effect in the secondary market, although it does not become effective until November 27.

The New Jersey Home Ownership Security Act of 2003 (NJHOSA) was signed by Governor James E. McGreevey in May following controversy over practices known as predatory lending. NJHOSA includes legislative findings that "abusive mortgage lending," especially involving equity-based rather than income-based loans, was causing an increasing number of foreclosures and threatening the viability of many communities. The law, which preempts predatory-lending ordinances passed by municipalities and counties in New Jersey, is one of the strongest in the nation and follows enact-

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Message from the Community Affairs Officer

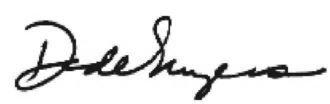
Addressing complex financing needs often takes a public-private effort and an extended period of time. About five years ago, the New York Fed's Office of Regional and Community Affairs sponsored a conference on affordable housing. One of the panels focused on financing for multifamily properties of five to 25 units.

Subsequently, a group of people began to meet to discuss obstacles to financing these properties. In one outcome of these discussions, the New York and Philadelphia Reserve Banks examined these financing issues and recommended solutions in a joint publication. A second publication by the Reserve Banks described multifamily assistance programs around the country that addressed such needs as landlord training and tax abatement linked to housing renovation.

Community developers and lenders responded to this identified credit need. In June of this year, the New Jersey Housing and Mortgage Finance Agency created a $20 million loan program that will finance and subsidize five- to 25-unit properties. An article about this program appears in this issue.

On a separate note, several years ago we hosted a series of conferences around the Third Federal Reserve District on predatory lending. There is extensive coverage in this issue about a new anti-predatory lending law in New Jersey. Advocates are understandably hopeful that the worst abuses will be stopped. In response to this issue, the New Jersey Department of Banking and Insurance is pursuing a three-part strategy of community outreach, financial education, and examinations of lenders.

Finally, we are planning a major conference, *Reinventing America's Older Communities,* scheduled for January 14-16, 2004, in Philadelphia. We have great co-sponsors and an interesting line-up of speakers from around the country. See our web site for more information.



NJ Program Finances Five- to 25-Unit Multifamily Properties

By Dede Myers

The New Jersey Housing and Mortgage Finance Agency (NJHMFA) has introduced its Small Rental Project Preservation Loan Program to provide financing statewide for multifamily projects of five to 25 units. NJHMFA's board approved $20 million for the program in June.

Sean Closkey, executive director of NJHMFA, said: "Governor McGreevey has challenged NJHMFA to finance 20,000 homes during the next four years. Part of this commitment means that we must preserve the housing stock that exists throughout the state. The Small Rental Project Preservation Loan Program recognizes that small apartment buildings are an important part of the fabric of almost every New Jersey town and city."

In February 2000, the Federal Reserve Banks of New York and Philadelphia published a report, *Preserving Multifamily Rental Housing: Improving Financing Options in New Jersey*, which described financing and government-policy obstacles to financing such properties. In New Jersey, multifamily structures with five or more units represent 48 percent of all rental units in the state, and five- to 19-unit properties represent 24 percent of the state's rental units, according to the 2000 census. A large percentage of these units are in New Jersey's central cities or older suburbs, so their renovation and reuse is an important strategy for rebuilding older communities.

"The Small Rental Project Preservation Loan Program recognizes that small apartment buildings are an important part of the fabric of almost every New Jersey town and city."

The new loan program addresses several obstacles identified in the Reserve Banks' report by providing 30-year financing at a fixed rate of interest with a minimum debt-service coverage ratio of 1.15 and maximum loan-to-value ratio of 90 - 100 percent on a nonrecourse basis. It provides a new, dedicated subsidy source with less administrative burden for small property owners and does not require annual re-certification of tenants' incomes. The program requires that rents not exceed those affordable to families earning 80 percent of the area median income.

The program provides financing in two parts for acquisition and moderate rehabilitation of five- to 25-unit properties. While the interest rate on the first-mortgage loan will be NJHMFA's taxable bond rate (currently 6.3 percent), the second-mortgage loan will bear an interest rate of 1 percent. Second-mortgage financing will be available for up to $25,000 per unit. NJHMFA, which generally does not issue bonds for projects with less than 25 units, is using its reserve funds to capitalize the program.

Property owners interested in more details should call Dana Davis at (609) 278-7527 or ddavis@njhmfa.state.nj.us; www.nj-hmfa.com.

Calendar of Events

Urban Forum II: Helping Communities Create Vibrant Commercial Corridors
A conference organized by the Local Initiatives Support Corporation's Center for Commercial Revitalization and LISC Philadelphia on a broad range of commercial-revitalization issues

October 8-10, 2003, Loews Philadelphia Hotel
For information, call (212) 455-1610 or contact urbanforum@liscnet.org.

First New Markets Tax Credit Awardees Seek Investors

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The national intermediaries are the Community Reinvestment Fund, Inc. (CRF), Minneapolis, MN; Local Initiatives Support Corporation (LISC), New York, NY; National Community Capital Association, Philadelphia; National Trust for Historic Preservation, Greenwich, CT; The Enterprise Foundation, Columbia, MD; and Wachovia Corporation, Charlotte, NC. Each of the intermediaries plans to focus on a service area that includes Pennsylvania; Wachovia also plans to focus on New Jersey. The two statewide funds are the Delaware Community Investment Corporation and the New Jersey Community Loan Fund (NJCLF). Once the CDFI Fund and the 66 first-round NMTC allocation recipients sign a recently released NMTC agreement, the allocatees will develop a private placement memorandum or similar document for investors.

A number of speakers and attendees were concerned that the IRS NMTC regulations are temporary and sought further guidance from the IRS. They noted that investors may be reluctant to make commitments until the IRS regulations are final. Some speakers and attendees also expressed unease about the lack of certainty about situations that would trigger recapture of the tax credits. Another concern was a lack of clarity about whether NMTCs can be used for mixed-use residential-commercial buildings.

Many speakers observed that NMTCs would be a credit enhancement for financially sound projects and noted that NMTCs did not have as deep a subsidy as low-income housing tax credits provide to rental projects. David Sharp, vice president and community development investment manager for Wachovia Corporation, which received a $150 million allocation, said that NMTCs might constitute one layer in a financing package and enhance cash flow but that the NMTCs "were not a way to get a bad deal done." The underlying transaction must make financial sense, he said, because NMTC investors will depend on the payment of interest, return of principal, and receipt of the NMTC to achieve targeted returns. NMTCs might be ideal to finance community facilities, he said.

The NMTC plans of most allocation recipients attending the symposium were in a preliminary stage, although the National Trust for Historic Preservation was in the process of closing on three projects located outside the Third District.

Several of the NMTC allocation recipients said they expected to use the NMTC to provide debt, rather than equity, financing. For example, David Scheck, NJCLF's executive director, said that he expected NJCLF would use NMTCs to structure creative financing transactions on a case-by-case basis.

The national intermediaries stressed the advantages of investing in their respective funds rather

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CDFI Leader Foresees Changes in Community-Development Finance

Mark Pinsky, president and CEO of National Community Capital Association (NCCA), said in an address at the June 13 conference that he expects significant restructuring and consolidation in the community-development finance sector during the next five years.

Pinsky cited "seismic shifts" over the past few years in economic conditions and public policy as the primary causes of the restructuring. In particular, he said that the weak job market, low interest rates, and a declining supply of subsidy dollars from government and philanthropic sources are changing the systems that deliver credit and capital to emerging domestic markets. In addition, he suggested that banks' current hesitancy to lend in subprime markets will be short-lived and that over the long term banks will move aggressively into emerging markets.

Pinsky said that community development financial institutions (CDFIs) will play important roles in the new community-development finance system but that their roles will change. "For CDFIs and for their conventional financial-system partners, we expect to see a re-ordering of roles and disaggregation of functions as the community development finance systems grow to scale," he said. NCCA is a network of more than 150 of the nation's leading CDFIs.

First New Markets Tax Credit Awardees Seek Investors

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than forming a for-profit affiliate, applying for a NMTC allocation, finding investors, and reporting to the IRS. Frank Altman, president and CEO of the Community Reinvestment Fund, Inc. (CRF), said that "teaming up enables small organizations to avoid the brain damage of going it alone." CRF — which received a $163 million allocation, the second largest — buys loans from community development lenders, pools them, and uses them to back a debt security it sells to institutional investors.

LISC said that it was talking to investors about sub-allocating NMTCs for single or multiple transactions. For example, a bank would underwrite a loan, LISC would establish a CDE, and the bank would make the loan and an NMTC-related investment through the CDE. Use of the NMTC could enable the bank to reduce its interest rate and increase its return. The Enterprise Foundation indicated it was willing to provide banks with "private label funds" in which banks would make NMTC investments in the banks' own names. The foundation would manage the funds.

The application deadline for the second round of NMTC allocations is September 30.

Extensive NMTC information is available at www.cdfifund.gov/programs/nmtc/index.asp. For presentations given at the Philadelphia Fed symposium and speaker contact information, see www.phil.frb.org/cca/conferences.html.

New Markets Tax Credits — New Stimulus for Economic Development

The new markets tax credit (NMTC) program — which stimulates investment in businesses and certain real estate projects in low-income communities — authorizes federal tax credits of $15 billion from 2001 to 2007. The program, which was part of the Community Renewal Tax Relief Act of 2000, permits taxpayers to receive a credit against federal income taxes for making qualified equity investments in designated community development entities (CDEs). The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a seven-year period.

The CDFI Fund certifies CDEs, which are for-profit corporations or partnerships that may be established by nonprofits or for-profits. CDEs must have a mission of serving or providing investment capital to low-income communities or people and a governing or advisory board that includes community residents. CDEs may apply to the CDFI Fund for an allocation of NMTCs and, if selected, offer NMTCs to investors for cash and use the proceeds to make qualified low-income community investments.

Qualified investments are equity investments in or loans to qualified businesses; equity investments in or loans to CDEs; purchase of qualified loans from another CDE; or financial counseling and other services to businesses or residents of low-income communities. Such investments, for example, could be made in for-sale housing projects. The IRS has not yet made a decision on whether the NMTC may be used in combination with the low-income housing tax credit.

CDEs must offer NMTCs to investors within five years of receiving NMTC allocations. CDEs have one year to use substantially all — generally 85 percent — of NMTC proceeds in qualified investments.

In the first NMTC awards, announced in spring 2003, the CDFI Fund approved 66 CDEs for $2.5 billion in NMTC allocations. Twenty-eight approved CDEs were formed by CDFIs, and 15 were formed by financial institutions or financial holding companies (the respective numbers include subsidiaries or affiliates of the parent organizations).

The second round of NMTC allocations will make available $3.5 billion for 2003 and 2004.

For further details, visit www.cdfifund.gov/programs/nmtc/index.asp.

Lenders Seek Clarification of NJ's Predatory-Lending Law

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ment of similar laws in North Carolina and Georgia.

Legislative negotiations between industry and consumer interests led to the patch quilt bill that contains three overlapping categories of home loans. E. Robert Levy, executive director and counsel of the Mortgage Bankers Association of New Jersey, said at a June 27 conference on NJHOSA held in New Brunswick, NJ, that the law had many ambiguities he hoped would be resolved by the New Jersey Department of Banking and Insurance (NJDOBI), amendatory legislation if necessary, or ultimately the courts.

About 250 brokers and representatives of mortgage companies and banking institutions attended the conference, co-sponsored by the New Jersey Bankers Association and the New Jersey League of Community Bankers. Many speakers and attendees questioned portions of NJHOSA, including the term "reasonable, tangible net benefit." (NJHOSA prohibits refinancing an existing home loan into a new "covered" or "high cost" loan within 60 months of consummation when the new loan does not provide such benefit to the borrower.) Attendees also questioned what should be included and excluded in calculating points and fees, what constitutes due diligence for purchasers and assignees of high-cost loans, and if the act applies to nationally chartered thrifts and banks.

H. Robert Tillman, director of NJDOBI's Division of Banking, said that NJDOBI expected to issue guidance on a number of questions raised by rating agencies and industry representatives. NJDOBI issued a bulletin on July 25, 2003, in response to questions about NJHOSA. (The bulletin, and information about NJHOSA, can be found at www.njdobi.org.)

Secondary Market Impact

Marguerite E. Sheehan, senior vice president and general counsel of Chase Manhattan Mortgage Corporation, said at the conference that one of the biggest concerns about NJHOSA "is its impact on the secondary market."

In May, Standard and Poor's Ratings Services announced it would not allow in its rated residential mortgage-backed security (RMBS) transactions "high-cost home loans" and "covered loans" (as defined in NJHOSA), as well as cash-out refinanced transactions, junior-lien mortgage loans, home improvement loans, and manufactured-housing loans. However, it will permit other loans originated on or after the law's effective date to be included in its RMBS transactions.

In June, Fitch Ratings Ltd. announced that it would not rate RMBS transactions that contain high-cost home loans originated in New Jersey after NJHOSA's effective date "since the unlimited liability provisions may result in unquantifiable losses." Fitch said it was concerned that loans originally coded as other than high-cost loans may actually be high-cost loans. To rate RMBS transactions that contain any loans originated in New Jersey after the effective date, Fitch will require certification from a third party that has conducted due diligence on the loans.

Sheehan said that Fannie Mae and Freddie Mac are tightening their loan-purchase requirements in response to predatory-lending statutes such as NJHOSA — increasing repurchase risk and potentially increasing guarantee fees. She said that she thought most major New Jersey lenders would not make high-cost loans because the liability risk was too high.

Recommendations

Sheehan recommended that New Jersey lenders immediately begin training originators, processors, and brokers with whom they work on risks of high-cost loans, compliance tools, and lenders' expectations. Lenders should also understand the latest requirements of investors and regulators, she said. In addition, she recommended that lenders automate their high-cost loan testing at least one month before NJHOSA's effective date and incorporate post-loan testing into their compliance monitoring procedures.

Another set of recommendations was provided by Laura J. Borrelli, founder and president of Barrister Mortgage and Investment, LLC, and of Laura J. Borrelli Consulting, which provides services to the home-equity lending industry. Both companies are located in West Paterson, NJ.

"Document, document, document your file!" Borrelli recommended. Lenders should document their files as part of their due diligence in order to comply with any future audit and to more easily sell loans into the secondary market, she said.

Borrelli emphasized that at closing lenders must review and approve the final HUD settlement statement and prior to disbursement must reconfirm costs and fees, the total loan amount, and APR.

Borrelli recommended that for each covered loan and high-cost loan lenders should prepare a worksheet enumerating "bona fide discount points" and allowable fees under NJHOSA. Lenders should also prepare a disclosure form that distinguishes "bona fide discount points" from interest-rate charges, with the disclosure signed by the customer. The lender's marketing could include the fact that clear information is being provided to consumers, she noted.

She added that lenders that make high-cost refinanced loans should add a disclosure form advising borrowers that they should continue to make all payments on the original loan during the approval process.

For information, contact E. Robert Levy at erlevy@mbanj.com, H. Robert Tillman at (609) 292-3420, Marguerite E. Sheehan at molly.sheehan@chase.com, or Laura J. Borrelli at laurajborrelli@cs.com.

New Jersey Banking Department Emphasizes Community Outreach and Education

By Keith L. Rolland

In its response to predatory-lending allegations, the New Jersey Department of Banking and Insurance (NJDOBI) has pursued a strategy for the past year emphasizing community outreach, consumer financial education, and regular and targeted exams of lenders.

A recently enacted predatory-lending law, the New Jersey Home Ownership Security Act of 2003 (NJHOSA), states that a creditor shall not make a high-cost home loan without first receiving certification from a third-party nonprofit credit counselor approved by HUD and NJDOBI that the borrower has received counseling or has completed "another substantial requirement" developed by NJDOBI.

In a related provision, the act says that NJDOBI, in consultation with the state's divisions of consumer affairs and civil rights, shall develop and implement a consumer counseling and awareness program to inform the public about predatory lending and "the informed and responsible use of credit."

"There is no easy way to eliminate predatory or abusive lending."

H. Robert Tillman, director of NJDOBI's Division of Banking, said: "There is no easy way to eliminate predatory or abusive lending. The solution will depend on changes in certain lending practices, certain loan provisions, and perhaps a change in the fundamental nature of the subprime market.

"Overall, consumers need better loan terms and conditions and more competitive products from which to choose. While financial education will help consumers recognize better deals and make better choices, a key factor in obtaining better deals is the motivation to shop for the best loan."

In a major part of NJDOBI's strategy on the predatory-lending issue, NJDOBI staff met with staff and clients of 65 nonprofits to learn about predatory-lending patterns, to explain how to avoid predatory loans, and to describe possible remedies for consumers who have such loans, Tillman said.

H. Robert Tillman, director, Division of Banking, New Jersey Department of Banking and Insurance

As part of its financial-education efforts, NJDOBI has added a chart entitled "What Interest Rate Should I Pay?" to its web site to show an approximate relationship between FICO scores and loan interest rates. In addition, two NJDOBI employees have prepared to teach financial-education con-

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New Jersey Banking Department Emphasizes Community Outreach and Education ..continued from page 7

cepts to nonprofit staff using the FDIC's Money Smart curriculum. Four other NJDOBI employees are to receive similar preparation later this year.

NJDOBI opened a satellite office in Newark, NJ, and is opening another soon in Camden, NJ, to enable residents to file predatory-lending complaints more easily and make inquiries about products of NJDOBI-regulated institutions, as well as to attend financial-education workshops.

NJDOBI is also working on an approval process for credit counseling required for high-cost loans. "We are proposing a set of regulations to establish a standard that these counselors should follow when providing counseling for high-cost loans," Tillman said.

Meanwhile, NJDOBI has trained all of its examiners to recognize predatory-lending practices and developed a checklist that assists them in recognizing predatory-lending issues. NJDOBI licenses over 1500 mortgage companies, 100 consumer-finance companies, and 120 banking institutions. Tillman said that he did not expect a lot of predatory-loan problems from banking institutions. NJDOBI has taken action against three entities — none of which is a banking institution.

In another part of its strategy, NJDOBI is trying to increase competition by encouraging banking institutions to offer low-cost products that are alternatives to subprime products for subprime borrowers or borrowers who have been denied loans by prime lenders.

For further information, contact H. Robert Tillman at (609) 292-3420; www.njdobi.org. NJDOBI's Camden office will be located at 101 Haddon Avenue, Camden, NJ, 08102; (856) 614-2958; www.njdobi.org.

New Jersey Home Ownership Security Act of 2003

The New Jersey Home Ownership Security Act of 2003 (NJHOSA), which becomes effective November 27, 2003, prohibits practices considered to constitute predatory lending.

NJHOSA contains prohibitions for three loan categories: home loans; covered loans; and high-cost home loans. **Home loans** broadly apply to one- to six-family owner-occupied home mortgage loans, including purchase-money mortgages and home-equity lines of credit.

Covered loans are loans that meet one of two thresholds: points and fees exceed 4 percent of the total loan amount for loans over $40,000, 4.5 percent for loans of $40,000 or less, or 4.5 percent on FHA- and VA-insured loans; or the loans meet the definition of high-cost home loans.

High-cost home loans are those up to $350,000 that meet or exceed one of two thresholds:

- The interest rate charged makes the loan subject to the federal Home Ownership and Equity Protection Act (HOEPA); or

- Points and fees exceed: 5 percent of the total loan amount (principal minus points and fees) for loans of $40,000 or more; 6 percent if the total loan amount is between $20,000 and $39,999; or 6 percent of the total loan amount or $1,000, whichever is less, for loans under $20,000.

For all three categories of loans, NJHOSA prohibits financing certain credit insurance premiums or debt cancellation agreements; recommending or encouraging default on an existing loan or other debt; charging a late payment fee in excess of 5 percent of the amount of the payment due; accelerating indebtedness at the creditor's sole discretion; and charging a fee for information concerning a borrower's payoff balance.

For covered loans and high-cost home loans, NJHOSA prohibits flipping, the act of refinancing a home loan consummated within the previous 60 months when the refinancing has no "reasonable, tangible net benefit" to the borrower.

In the case of high-cost home loans, NJHOSA contains 14 additional prohibitions, including financing points and fees in excess of 2 percent of the total loan amount, most balloon payments, negative amortization, and increasing the interest rate after default.

High-cost loan prohibitions include making direct payment to home improvement contractors out of the loan proceeds and lending without first receiving certification that borrowers have received counseling from nonprofit credit counselors approved by the New Jersey Department of Banking and Insurance (NJDOBI) and HUD.

NJHOSA also states that, in the case of high-cost home loans, purchasers or assignees are subject to all the claims that borrowers could assert against the original creditors or brokers unless the purchasers or assignees can prove that a person exercising due diligence could not determine that the loan was a high-cost home loan.

Under NJHOSA, violations can trigger civil penalties of up to $10,000 per offense, license suspension or revocation, and cease and desist orders. Borrowers may recover punitive damages for "malicious or reckless" violations or may recover under New Jersey's Consumer Fraud Act.

NJHOSA provides a safe harbor from penalty for creditors who act in good faith and make restitution to borrowers and loan adjustments within 45 days of loan closings, or within 90 days of closings and prior to receiving a violation notice from borrowers in the case of a clerical, calculation, or other bona fide error.

Economic Education

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Community Affairs Launches Economic Education Program

By Andrew T. Hill

Many students receive little or no economics or personal finance education in school and enter the world of work without the skills and understanding they need to make good spending, saving, investing, and civic decisions. While teachers specialize in educating young people, many have relatively limited backgrounds in economics and finance.

Each of the nation's 12 Reserve Banks works to increase students' understanding of micro- and macro-economics, the Federal Reserve System, and personal finance.

Recent changes in primary and secondary education, including those brought about by the No Child Left Behind Act of 2001, place increasing emphasis on mathematics and language arts education. As a result, the Philadelphia Fed's Community Affairs (CA) Department has begun to train K-12 teachers to teach economics and personal finance, which are incorporated in math and language arts classes or stand-alone courses. Each of the nation's 12 Reserve Banks works to increase students' understanding of micro- and macroeconomics, the Federal Reserve System, and personal finance.

CA works closely with ECONOMICSPennsylvania, the Delaware and New Jersey Councils on Economic Education, and their associated centers for economic education in colleges and universities throughout the District. Within the last year, CA has hosted programs with the councils as well as with Temple University's Fox School of Business, Lehigh University,

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Community Affairs Launches Economic Education Program

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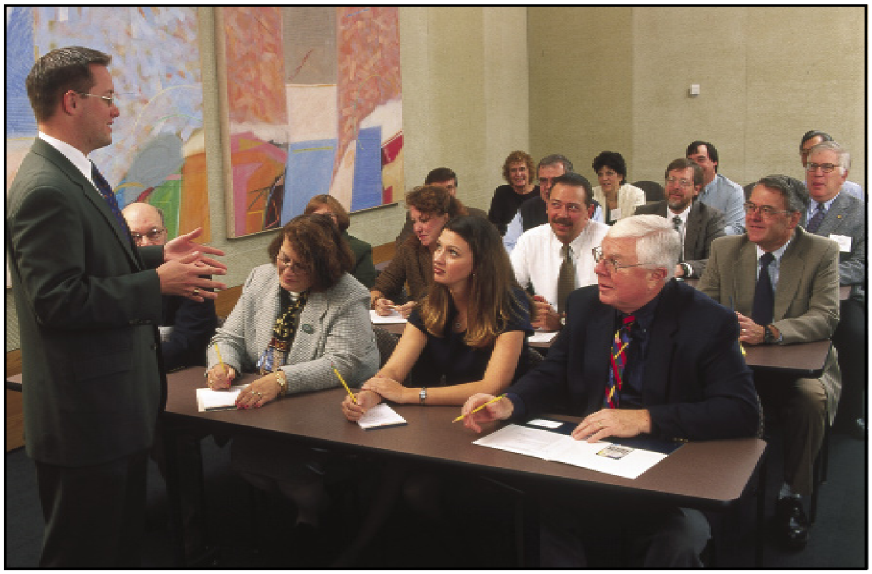
and the Chamber of Commerce of Southern New Jersey.

As part of its objective to further economic education, the Philadelphia Fed recently developed "Money in Motion," a permanent exhibit dedicated to the story of money and central banking in the United States and the purposes and functions of the Federal Reserve System. The exhibit is free and open to the public.

CA plans to develop a curriculum that can be used by teachers before and after class visits to the exhibit. Student groups are welcome to visit the self-guided exhibit throughout the year. On several days to be announced, CA staff will speak on an economics topic in conjunction with student visits.

In the coming year, CA will develop a curriculum package about the history of central banking in the United States. The Philadelphia Fed's proximity to the First and Second Banks of the United States in Independence National Historical Park places the Philadelphia Fed in a unique position to help history teachers better instruct students on the past and present nature of U.S. central banking.

The Philadelphia Fed helped develop "Keys to Financial Success," a personal finance course for high school students, through a partnership with the University of Delaware Center for Economic Education and Entrepreneurship, the Delaware Bankers Association, and the Consumer Credit Counseling Services of Maryland and Delaware, Inc. (Development of the course is discussed in the Summer/Fall 2001 issue of *Cascade*.) "Keys to Financial Success" will be taught in 18 Delaware high schools in 2003-04, and CA is working with ECONOMICSPennsylvania to introduce the course in a pilot group of five to 10 Pennsylvania high schools in 2004-05.



Andrew T. Hill, Ph.D., economic education specialist, speaks at a meeting of ECONOMICSPennsylvania, the Pennsylvania affiliate of the National Council on Economic Education. Hill regularly speaks to teachers on economics and the Federal Reserve System.

CA is currently developing economics teacher-training programs and will host "Hot Topics in Economics," an evening program for teachers, in conjunction with ECONOMICSPennsylvania this October.

Andrew T. Hill is the economic education specialist at the Federal Reserve Bank of Philadelphia. He received his B.S., M.A., and Ph.D. degrees in economics from the University of Delaware, where he taught principles of economics and international economics. Prior to coming to the Philadelphia Fed, he was visiting assistant professor of economics at Washington College in Chestertown, MD. He is a member of the American Economic Association and the National Association of Economic Educators and a 2001 recipient of the University of Delaware Excellence in Teaching Award.

For information on CA's economic education program, contact Andrew Hill, Ph.D. at (215) 574-4392, or andrew.hill@phil.frb.org.

For hours and other information on "Money in Motion," visit www.phil.frb.org. Reservations are not required, but teachers who will be bringing student groups are encouraged to contact Andrew Hill beforehand. For general information about the exhibit, call (215) 574-3930.

Commerce Bank Provides Financial Education to Nearly 100,000 Students

By Keith L. Rolland

Commerce Bank, N.A., has reached nearly 100,000 K-12 students in a 15-year-old financial-education program delivered by trained branch employees. The program — CommerceWOW!Zone® — reinforces its retail-oriented community-bank image and complements the bank's broader goal to "wow" customers with its service.

The heart of the program consists of 25 age-appropriate lesson plans and "Dollar Dare," a game-show-like activity presented at school assemblies. Presentations in elementary schools focus primarily on savings while those in middle schools also cover budgeting and checking, and those in high schools include ATM cards.

Each of Commerce Bank's 243 branches in Pennsylvania, New Jersey, Delaware, and New York has one or two employees who have taken a six-hour course offered by the bank's employee training program on financial education for young people. Jennifer McGinley, assistant vice president and e-commerce manager at Commerce Bank, N.A., and overseer of CommerceWOW!Zone®, said: "The program reminds our branch managers and customer service representatives how much fun banking can be and rewards them in nontraditional ways."

Each fall Commerce sends a brief informational kit to about 4000 schools in its trade area, explaining that trained bank instructors are available to make financial-education presentations. Commerce also sends informational materials to area schools when it opens a branch in a new market and generally promotes the program through its branch system. The bank tracks the zip codes of schools visited so that it will be able to get CRA service test credit for visits to low- and moderate-income areas, McGinley said.

In 2002, Commerce reached 28,500 students in more than 500 schools. The web site, featuring animated stories for children, interactive games, a virtual stock market game, and downloadable lesson plans, has had about 10,000 hits since inception. Teachers welcome the program because lesson plans are designed to help students meet K-12 standards set by the National Council of Teachers of Mathematics, McGinley noted.

McGinley said that the bank's CommerceWOW!Zone® goals are to support education in its local communities; invite students to visit the Commerce-area branch, see that "banking can be fun," and become aware of career opportunities in banking; and enable students to be confident about their financial know-how about saving and investing.

Commerce Bank's original financial-education program, Super Savers, which contained K-4 lessons, was renamed CommerceWOW!Zone last year.

A bank that starts a financial-education program will need to develop a training program, lesson plans, database, and possibly a web site, McGinley said. She recommended that such a bank

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Joseph C. Rosselli, manager of a Commerce Bank branch in Northeast Philadelphia, works with kindergarten students at New Horizons Charter School as part of the CommerceWOW!Zone® program.

Commerce Bank Provides Financial Education to Nearly 100,000 Students

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identify employees who are interested in talking to young people and are receptive to feedback from teachers; pay attention to the infrastructure issues so that once a program is launched the bank is prepared to respond to the volume of requests it receives; and reflect a bank's culture in its education program. "Our program reflects our bank's personality," she explains. "Develop it in a way that's a positive experience for everyone involved."

For information, contact Jennifer McGinley at (856) 751-9000 or jmcginley@yesbank.com; commerceonline.com.

A Banker's Observation

Christine Joes, vice president at Commerce Bank, N.A. and a banker who has been involved in financial education for more than 17 years, observes that CommerceWOW!Zone® is successful because of its delivery by community-based retail branch staff, the enthusiasm generated by the marketing department, and the training course the retail staff receives before entering the classroom.

"The retail staff understands what's going on in their local community, and that helps give the program credibility," she explains. "They love doing it and choose to take the training with the support of their managers. It's not delivered at arm's length by people distant from the community."

Joes recommends that, before launching financial education programs, banks should assess the available commitment, talent and resources available; analyze their target audience and clearly identify the audience's needs; and address those specific needs in the creation and execution of the program.

Community Affairs Increases Financial-Education Outreach

The Philadelphia Fed's Community Affairs Department is becoming active in financial education for adults at the same time as it is preparing teachers to instruct students on economics.

Vera W. Bowders, community development advisor, and Grace Theveny, community affairs specialist, have begun to teach budgeting and money-management concepts to staff members of nonprofits, banks, and government agencies. In "train the trainer" sessions using the FDIC's Money Smart curriculum, they conducted a training session in Reading, PA, on July 23 and previously held one for about 20 Philadelphia Fed employees. Many of the employees were attending in order to learn to teach financial concepts to others in nonprofits and churches with which they are affiliated.

Bowders and Theveny are also planning to conduct a financial-education event at a military base in the Third Federal Reserve District.

Community Affairs is exploring opportunities to give other "train the trainer" sessions and to study the effectiveness of adult financial education during a period of five years or more.

For information about Community Affairs' financial-education work, contact Grace Theveny at (215) 574-6457 or grace.theveny@phil.frb.org.

Community Bank-Nonprofit Partnership Provides Car Loans to Entry-Level Workers

By Keith L. Rolland

Nazareth National Bank & Trust Company and two social-service nonprofits are working closely together in a three-year-old car-ownership program that assists low-income parents entering the workforce.

Application volume has risen steadily, and Dawn Washington, program coordinator, expects to close about 90 loans this year. About half of the 30 applications filed monthly are being approved.

Family & Counseling Services of the Lehigh Valley (FCSLV) and the Children's Home of Easton joined with the community bank to replicate the Ways to Work (WTW) program, which provides loans related to employment or vocational training to parents of children who are 18 years or under or high-school or college students.

WTW was started by the Alliance for Children and Families, Inc. (ACF) in Milwaukee, WI, a national association of family-counseling agencies providing financial and technical assistance to enable its members to start WTW programs. The target audience is single parents who have not previously obtained bank loans but who can learn to make regular loan payments and pay off debts. A community bank makes and services the loans for two years — the expected useful life of the used cars — in the 35 WTW programs operated by AFY affiliates.

In the Lehigh Valley, loans have been made primarily for car purchases at an average amount of $2,500. Of 166 approved loans totaling $349,359, 31 have been repaid and 26 loans have defaulted, representing 15.6 percent of dollars lent, as of the end of June 2003. The 60-day delinquency rate is currently 8 percent.

Brian Hinger, vice president and consumer loan department manager at Nazareth National Bank & Trust Company, shares a progress report on the Ways to Work small-loan program in the Lehigh Valley with Dawn Washington, program coordinator.

Nazareth National processes WTW applications and closes and services the loans, which are typically secured by a vehicle. The bank reports loan-payment experience to credit-reporting agencies — a process that helps borrowers repair their credit — and generates a weekly status report on the loans. The bank deposits 3 percent of its total finance charge (currently 8 percent) into the loan-loss reserve.

Brian Hinger, vice president and consumer loan department manager at Nazareth National Bank & Trust Company, said that the bank was very pleased with the program. While the default rate is much higher than is normally acceptable in banking, the bank's loans are guaranteed. A loan-loss reserve and operating expenses are funded with grants totaling $300,000 from the McKnight Foundation in Minneapolis, MN, which has provided extensive funding of WTW programs, and the Degenstein Foundation in Sunbury, PA.

"One of the keys to the success of this program is the fact that at the outset we had an agreement with FCSLV that clearly defined the responsibilities and expectations of both parties," Hinger added.

Bill Vogler, FCSLV's executive director, said that the car loans enable low-income borrowers to work more hours, obtain promotions, or take better-paying jobs. Michael Danjczek, executive director of the Children's Home of Easton, said WTW "solves one of the most difficult problems

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Community Bank-Nonprofit Partnership Provides Car Loans to Entry-Level Workers...continued from page 13

of low-income single parents — transportation."

The Lehigh Valley WTW program, which has a staff of 1.5 full-time equivalents, serves Lehigh, Northampton, and Monroe counties.

ACF operates the program through a subsidiary, Ways to Work, Inc., which has been certified as a community development financial institution by the CDFI Fund.

WTW programs are also operated by the Family Service Association in Egg Harbor Township, NJ, and the Center for Family Services, Inc. in Camden, NJ, while a new WTW program launched by the Nehemiah Gateway Community Development Corporation in Wilmington, DE will start this fall in New Castle County, DE.

For information, contact Dawn Washington at (610) 435-9651 or dwashington@familyanswers.org, or Brian Hinger at (610) 746-7208 or brian.hinger@nazbank.com.

A useful web site on car-ownership programs is www.nedlc.org/center/car.htm.

Another article containing recommendations for nonprofits starting car-loan programs is available from Keith Rolland at keith.rolland@phil.frb.org.

Wilmington Nonprofit Expands Security-Deposit Loan Program for Renters

West End Neighborhood House (WENH) in Wilmington, DE, which operates one of the largest and oldest nonprofit security-deposit loan programs (SDLPs) for renters in the Third Federal Reserve District, recently started offering its borrowers educational workshops and access to a new loan program for job-related expenses.

WENH's statewide 10-year-old SDLP provides loans coupled with intensive case management and a comprehensive package of food, clothing, and other services to low-income renters who are in a precarious housing situation, in transitional housing, or homeless. Most clients are single heads of households with children and are usually not creditworthy.

Barbara Reed, program director, said that the need for such a program has increased in recent years because subsidized-housing managers now require full-market security deposits. There were 42 SDLP applications in June 2003 — more than in any previous month.

WENH recently started conducting quarterly educational workshops for SDLP clients and other residents on landlord-tenant communications, budgeting, employment assistance, and home ownership. It is also beginning to provide Job Start loans of $200 to $1000 for expenses related to new positions, such as uniforms, equipment, licenses, and bonding, with funding from the JPMorgan Chase Foundation. Wilmington Trust Company will process the loans.

Some 1258 families have received WENH loans totaling $527,616 and grants totaling $112,691 as of the end of May 2003. The default rate has ranged from 12 percent to 16 percent during the last five years; it was much higher in the early years of the program. The delinquency rate averages about 15 percent of closed loans. In 2002, it made 98 loans totaling $55,000, a 10 percent increase over the amount lent in 1999, Grant said. WENH's 2002 loans tended to be in the $650 to $800 range.

The SDLP, which has a staff of 3.5 full-time equivalents, has been substantially funded since inception by the Delaware State Housing Authority and 17 banks. The banks provide grants to fund operations and SDLP loans, have representatives on the SDLP loan committee, and provide speakers on credit and financial management.

Reed said: "This unique program combines social and banking services and gives low-income families the opportunity to move into a stable housing situation and begin to repair their credit and move into the financial mainstream. Since about 85 percent of borrowers repay their loans, these funds can be recycled to assist more families."

For information, contact Barbara Reed at (302) 658-4171 or breed@westendnh.org.

District News

- **Nehemiah Gateway Community Development Corporation** in Wilmington, DE, is starting to offer workshops on taxes, record-keeping, and money management for a network of 2200 licensed home-based daycare providers in Delaware. The providers are typically low-income sole-proprietor women-owned businesses. An intern funded by the Citigroup Foundation designed the workshops, which have been approved by the state as required training for annual daycare license renewal. For information, contact Mary Dupont at mary@marydupont.com.

- A new program is assisting nonprofits with computer needs through consulting and training. **NPower Pennsylvania** is a new 501(c)(3) that provides services to 501(c)(3) nonprofits in Bucks, Chester, Delaware, Montgomery, and Philadelphia counties in PA and Camden County, NJ. For information, contact Lisa Shulock at (215) 557-1559 or lisa@npowerpa.org; www.npowerpa.org.

- A report entitled *Credit Counseling in Crisis* is available at www.consumerfed.org/credit_counseling_report.pdf.

- Information on earned income tax credits, including new pre-certification requirements, may be found at www.stateeitc.com and www.eitc.info.

- The Consumer Bankers Association's *2002 Survey of Bank-Sponsored Financial Literacy Programs* is available at www.cbanet.org.

- A new web site with mortgage and other financial information for consumers is www.safeborrowing.com.

Keep Up on News About CRA and Consumer Compliance...

... by reading *SRC Insights and Compliance Corner,* a quarterly newsletter published by the Philadelphia Fed's Supervision, Regulation and Credit Department. It is available at www.phil.frb.org/src/srcinsights/index.html.

The second quarter 2003 issue includes articles on Home Mortgage Disclosure Act reporting changes; the Federal Reserve Board of Governors' final revisions to the official staff commentary to Regulation Z, which implements the Truth in Lending Act; and the Soldiers' and Sailors' Civil Relief Act of 1940.

Readers of *Cascade* and *SRC Insights and Compliance Corner* can receive e-mail notification when new issues are published. Sign up for e-mail notification for these and other Philadelphia Fed publications at www.phil.frb.org/phil_mailing_list/dsp_user_login.cfm.

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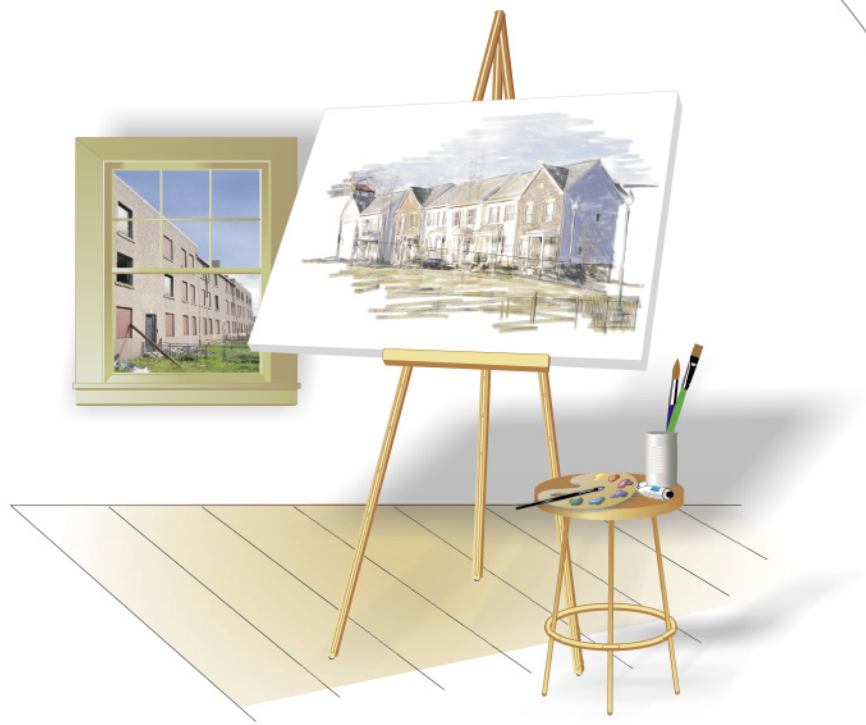

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